

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 EURE-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

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FM AMEMBASSY LUXEMBOURG

TO SECSTATE WASHDC PRIORITY 3786

INFO AMEMBASSY BONN

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AMEMBASSY COPENHAGEN

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AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS UNN

USMISSION OECD PARIS UNN

C O N F I D E N T I A L LUXEMBOURG 0130

E.O. 11652: GDS

TAGS: EFIN, LU

SUBJ: PRIME MINISTER'S COMMENTS ON EC MONETARY MATTERS

SUMMARY: ON FEBRUARY 26 I CALLED ON PRIME MINISTER PIERRE WERNER TO DISCUSS CURRENT ECONOMIC DEVELOPMENTS IN THE COMMUNITY. WERNER TOLD ME THAT HE CONTINUES TO SUPPORT THE CURRENCY SNAKE AND BELIEVES THAT IT WILL WORK. HE ALSO EXPECTS THAT A RISE IN THE PRICE OF GOLD IS INEVITABLE AND THAT GOLD AND THE DOLLAR WILL REMAIN THE MAIN RESERVE ASSETS UNLESS INTERNATIONAL MONETARY REFORM MOVES QUICKLY FORWARD. WERNER BELIEVES THAT THE EC WILL DEVISE SOME
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SCHEME FOR CHANNELING ARAB CAPITAL FUNDS INTO EC DEVELOP-

MENT PROJECTS AND REMAINS OPTIMISTIC THAT THE EUROPEAN MONETARY COOPERATION FUND WILL BECOME A WORKABLE REALITY.

2. ON LATE FEBRUARY 26 I CALLED ON PRIME MINISTER AND FINANCE MINISTER PIERRE WERNER TO DISCUSS RECENT DEVELOPMENTS IN THE EUROPEAN COMMUNITY. WERNER FIRST TOLD ME THAT HE REMAINS COMMITTED TO THE CURRENCY SNAKE AS THE CENTERPIECE FOR EUROPEAN MONETARY COOPERATION AND THAT HE EXPECTS THE FIVE REMAINING CURRENCIES TO SUCCEED IN MAINTAINING THE SNAKE. HE VIEWS THE SNAKE AS A NEEDED POLITICAL SYMBOL OF MONETARY UNITY DESPITE TECHNICAL AND ECONOMIC DIFFICULTIES ASSOCIATED WITH ITS FUNCTIONING. THERE IS SOME CONCERN AMONG THE FOUR SMALLER COUNTRIES OVER FALLING UNDER THE DOMINATION OF THE D-MARK AND GERMAN MONETARY POLICIES, BUT HE SAYS THAT THE FRG HAS GIVEN ASSURANCES TO CONSULT WITH THE OTHER FOUR ON ECONOMIC POLICIES, AND THE FIVE WILL WORK OUT THE MODALITIES OF THIS UNDERSTANDING AT THEIR NEXT MEETING MARCH 7. WHEN I ASKED HIM IF THIS UNDERSTANDING MEANT THAT THE FIVE WOULD MOVE TOWARD A CLOSER HARMONIZATION OF ECONOMIC POLICIES THAN THE NINE, WERNER REPLIED THAT THE FIVE WOULD ATTEMPT TO ACHIEVE THE COOPERATION ORIGINALLY PLANNED FOR THE NINE, BUT WHICH UNFORTUNATELY HAD NOT BEEN ACHIEVED. HE ADDED THAT THE FIVE HELD SIMILAR VIEWS ON CURRENCY STABILITY AND THOUGHT THAT COOPERATION OF ECONOMIC POLICIES AMONG THE FIVE MIGHT BE EASIER THAT IT HAD BEEN AMONG THE NINE.

2. WERNER WAS OPTIMISTIC THAT THE FRENCH WOULD REJOIN THE SNAKE IN ABOUT SIX MONTHS. HE FELT THAT THE FRENCH HAD ACTED "IN A PANIC" IN FLOATING THE FRANC AND ON SECURING OIL CONTRACTS WHICH RESULTED IN HIGHER PRICES THAN WOULD NOW BE THE CASE. WERNER INDICATED THAT HE HAD RECEIVED NO CLARIFICATION FROM GISCARD D'ESTAING ABOUT THE MONETARY PLAN THAT THE FRENCH REPORTEDLY WERE PLANNING TO SUGGEST TO THE EC. HE DISMISSED THE CONCEPT OF A CONTROLLED FLOAT OF EC CURRENCIES AS A SNAKE UNDER ANOTHER NAME, OR AS HE HUMOROUSLY PUT IT "A SNAKE WITH A BULGE IN IT FOR THE FRANC".

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3. WERNER CONFIRMED THAT THERE IS A GROWING EC INTEREST IN THE REVALUATION OF GOLD FOR USE IN CENTRAL BANK TRANSACTIONS. HE BELIEVES THAT THE REVALUATION OF GOLD IS INEVITABLE AS LONG AS THE DISPARITY BETWEEN MARKET AND OFFICIAL GOLD PRICES CONTINUES TO WIDEN. HOWEVER, AND DECISION ON THE OFFICIAL VALUATION OF GOLD SHOULD BE MADE IN AN INTERNATIONAL FORUM AND THE IMF SHOULD SEIZE THE INITIATIVE TO DEFINE ITS ROLE IN THE NEW

MONETARY SYSTEM. IF THE FUNCTION OF GOLD IS NOT DEFINED SOON, THE ECONOMIC AND SPECULATIVE FORCES WE ARE WITNESSING IN GOLD MARKETS TODAY WILL WEAKEN SUPPORT FOR THE SDR AS THE CENTRAL ELEMENT IN A REFORMED MONETARY SYSTEM AND "SEVERAL COUNTRIES BUT NOT LUXEMBOURG WILL BE CONTENT FOR THE SYSTEM TO REMAIN DEPENDENT UPON A REVIVED DOLLAR AND A HIGHER VALUED GOLD."

4. CONCERNING THE EC COMMISSION'S RECOMMENDATION FOR THE ESTABLISHMENT OF RULES AND PROCEDURES FOR MOBILIZING RESOURCES FROM INTERNATIONAL CAPITAL MARKETS, WERNER WAS NOT CERTAIN HOW THIS MIGHT FUNCTION ALTHOUGH HE ENVISIONED SOME TYPE OF COOPERATIVE BORROWING IN THE EUROPEAN CAPITAL MARKETS FOR EC DEVELOPMENT PROJECTS, DRAWING UPON ARAB FUNDS THAT HAD BEEN CHanneLED THROUGH THIS MEDIA. IN THIS REGARD, PART OF THE MOTIVATION FOR MAINTAINING THE SNAKE AFTER THE FRENCH DEFECTION WAS TO DEMONSTRATE THAT THERE WAS AN ISLAND OF MONETARY STABILITY IN EUROPE WHICH WOULD BE ATTRACTIVE TO CAPITAL INVESTORS, INCLUDING THE ARAB STATES.

5. WHEN I ASKED WERNER ABOUT THE EUROPEAN MONETARY FUND, HE ADMITTED THAT IT WAS NOT FULFILLING THE HOPES HE HAD HELD FOR IT -- THE EMBRYONIC BEGINNINGS TO A EUROPEAN CENTRAL BANK. HE IS OPTIMISTIC, HOWEVER, ABOUT ITS FUTURE AND NOTED THAT AN OFFICE AND SMALL STAFF HAD BEEN ESTABLISHED RECENTLY IN LUXEMBOURG AS A TANGIBLE SIGN OF ITS EXISTENCE. HE IS HOPEFUL THAN AN EXPANDED USE OF THE FUND COULD BE MADE BY THE FIVE COUNTRIES REMAINING IN THE SNAKE. FARKAS

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